Q&A Session on Financial Results for FY3/2021 2nd Quarter

(Q) Net income for the 3 months of 2Q for Aviation was nearly zero. What caused this result? Although gains on sales were posted until FY3/2020, based on the current environment, how should we think about the profit levels for Aviation? Furthermore, what were the credit costs for Aviation in 1H?

(A) Net income for Aviation for 1Q was 3.1 billion yen compared to 3.2 billion yen for 1H, meaning net income for 2Q was only 100 million yen. We take in the earnings from our overseas subsidiaries at a 3-month delay, but the toughest period in terms of aircraft operating rate and other factors for the airline industry was 2Q (April through June for overseas subsidiaries). At present, we have recovered from those conditions.
Most of the 5.1 billion yen in credit costs for 1H were for Aviation and the overseas Customer Business. Aviation has a greater proportion in the breakdown.

(Q) The business integration with Hitachi Capital is likely to give you greater capital capabilities following the integration, but is your plan to build up assets (make investments), to increase investor return levels, or take a balanced approach between the two?

(A) When we announced the business integration on September 24, we discussed our ability to utilize the new integrated company's capital capabilities as a form of synergy. Although we are not yet at the stage where management strategies can be discussed between both sides of the new company, our desire is to increase the value of our businesses through investment synergy. As to whether we will be focusing on investments or shareholder returns, we would like to answer that our intention is to increase earnings through investments.

(Q) What was the 1H allowance for Aviation? Furthermore, has the allowance for 2H already been set aside, or will we not be seeing any more accrue?

(A) Credit costs, when broken down, come in two types: the first is the loss from airlines that went bankrupt. The other type is the allowance posted for downgraded airlines. The net income of 50 billion yen from our performance forecast for the full year was a conservative estimate incorporating significantly greater credit costs than 1H, as we anticipated that conditions would be harder for the airline industry in 2H. This is not to say that we are seeing any specific signs of difficulty for the industry at present, but we are anticipating factors such as the third-wave of COVID-19 which is said to be incoming and are factoring in fairly dense credit costs for 2H.

(Q) You explained that expenses associated with your business integration with Hitachi Capital would be controlled during 2H, but what is the scope of such expenses you anticipate in your forecast (net income 50 billion yen) for 2H? Can you also provide us with a breakdown?

(A) Of the 4.1 billion yen in business integration-related expenses for 1H, roughly 3 billion yen were spent in preparation expenses for the submission of Form F-4 to the SEC (the United States Securities and Exchange Commission). The remaining 1.1 billion yen included expenses such as fees for our advisors with respect to the integration itself. As we learned at the start of October that we would not need to submit Form F-4 to the SEC, we believe that for 2H we can limit related costs to the minimum amounts associated with closing. As such, we expect that, at the least, the 3 billion yen portion will be significantly reduced for 2H. We are not yet able to accurately ascertain other expenses related to the business integration, but we have developed our plans for 2H by padding some of the expenses we are able to forecast at this point.

(Q) Low off-lease ratios continue at Aviation, but have there been any unexpected off-leases during the past few months? If there were, were you able to make sales, or form secondary leases or new leases for them?

(A) We maintain fairly strong communication with our partner airlines, so there were no unexpected off-leases. During our discussions with airlines, we received a number of inquiries from superior airlines who hadn’t been using leases up to now, after which we would take aircraft back from airlines that are performing poorly and form secondary leases with the better airlines. We plan to carefully continue our discussions with our clients while working to develop an even stronger capital portfolio composition.

(Q) The amount posted in your 1Q results for expenses related to bolstering your management base appeared to grow significantly YOY. What were these expenses like during the 3 months of 2Q?

(A) The costs we explained for bolstering our management base in our 1Q results were actually for the business integration, but we could not mention that at the time. The majority of the expenses for bolstering our management base are best understood to be made up of business integration-related expenses.

(Q) During your September 24 press conference, you explained that the “deliberations between your companies regarding the sales aspects of the business integration would be held after acquiring the requisite clearance under anti-trust laws.” Are you obtaining the clearances as planned?

(A) As of September 24, after we had made our business integration announcement, we are making preparation for our necessary internal and external applications under the respective anti-trust laws of each applicable nation and region. We are seeking to obtain the requisite clearances by end-January 2021, and no unexpected problems have occurred as of now.

END